



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CLAY COUNTY SHERIFF**

Calendar Year 1999

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLAY COUNTY SHERIFF

Calendar Year 1999

We have completed our audit of the Clay County Sheriff's statement of receipts, disbursements and excess fees for calendar year 1999 and have issued an unqualified opinion. It appears that the financial transactions of Clay County Sheriff's office were properly accounted for taken as a whole.

In addition, we tested for compliance with state laws and regulations. We noted the following issue relating to compliance with state laws and regulations:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James Garrison, Clay County Judge/Executive
Honorable Edward Jordan, Clay County Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Clay County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James Garrison, Clay County Judge/Executive
Honorable Edward Jordan, Clay County Sheriff
Members of the Clay County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2001, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 22, 2001

CLAY COUNTY
EDWARD JORDAN, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

State Grants:

Kentucky Law Enforcement Foundation Program Fund	\$ 10,495	
Marijuana Eradication	<u>1,865</u>	\$ 12,360

State Fees For Services:

Finance and Administration Cabinet	\$ 10,540	
Bank Shares	<u>12,368</u>	22,908

Circuit Court Clerk:

Sheriff Security Service	\$ 16,986	
Fines and Fees Collected	4,355	
Serving Papers	1,160	
Restitution	<u>155</u>	22,656

Fiscal Court		24,473
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County Clerk - Delinquent Taxes		5,114
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Commission On Taxes Collected		159,427
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Fees Collected For Services:

Fees Collected On Taxes	\$ 37,750	
Auto Inspections	7,945	
Accident and Police Reports	71	
Serving Papers	11,517	
Forfeitures	<u>2,499</u>	59,782

Other:

Miscellaneous	\$ 2,874	
Dog License	83	
Transporting Mental Patients	2,446	
Carrying Concealed Deadly Weapons Permits	<u>8,682</u>	14,085

CLAY COUNTY
EDWARD JORDAN, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1999
(Continued)

Receipts (Continued)

Interest Earned	\$ 2,604
Gross Receipts	\$ 323,409

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$ 102,101
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Employee Benefits-

Employer's Share Social Security	11,948
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Unemployment Insurance	980
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Contracted Services-

Advertising	585
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Contract Labor	163
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Materials and Supplies-

Office Materials and Supplies	8,415
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Uniforms	8,256
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Equipment Rentals	1,033
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Computer and Bookkeeping Service	10,648
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Commission Overpayment	1,996
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Auto Expense-

Gasoline	12,415
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Maintenance and Repairs	25,314
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Other Charges-

Conventions and Travel	319
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Dues	373
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Postage	1,334
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Bonds and Insurance	2,994
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Miscellaneous	2,568
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CLAY COUNTY
EDWARD JORDAN, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1999
(Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges - (Continued)

Carrying Concealed Deadly Weapons Permits	\$ 5,095
Evidence	639
Marijuana Eradication	<u>1,865</u>

Total Disbursements	<u>\$ 199,041</u>
Net Receipts	\$ 124,368
Less: Statutory Maximum	<u>61,891</u>
Excess Fees Due County for Calendar Year 1999	\$ 62,477
Payments to County Treasurer - January 14, 2000	<u>48,025</u>
Balance Due at Completion of Audit	<u><u>\$ 14,452</u></u>

The accompanying notes are an integral part of the financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 1999.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

CLAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1999
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff's office maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 10, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$181,043 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 10, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by the county official's agent in the county official's name	\$ 1,000,000
Uncollateralized and uninsured	<u>181,043</u>
Total	<u><u>\$ 1,181,043</u></u>

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COMMENT AND RECOMMENDATION

CLAY COUNTY
EDWARD JORDAN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 1999

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 10, 1999, \$181,043 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff Jordan's Response:

This has been corrected.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The County Should Require Depository Institutions To Pledge Sufficient Securities As Collateral To Protect Deposits

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clay County Sheriff as of December 31, 1999, and have issued our report thereon dated January 22, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clay County Sheriff's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 22, 2001

